

Financial and Cost Accounting

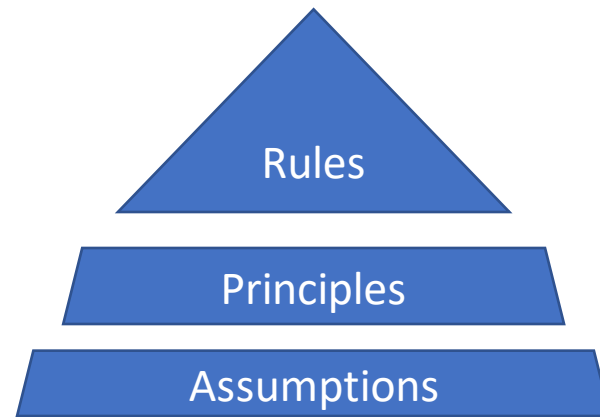
Lecture 2

Is accounting practical or theoretical

Accounting is both Theoretical and Practical

Theory and practice both go hand in hand

Informally accounting theory covers a lot of information, like a cloud.
Formally its can be understood as comprising of the following pyramid



Rules are external (compels through force), Principles are internal(motivated through one's sense of right or wrong)

Assumptions are used when exact information is unavailable, as a best estimate

GAAP: Generally Accepted Accounting Principles. Principles generally agreed and used through out the accounting world.

Standards are maintained and enforced by organizations such as FASB, IASB and SEC.

Purpose of accounting

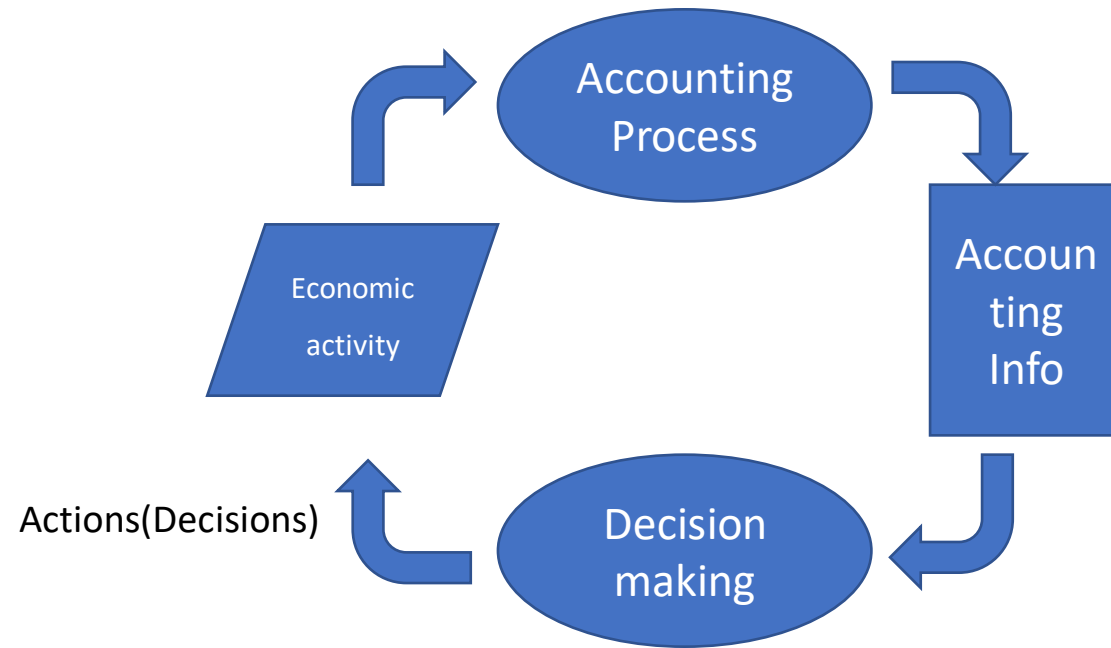
The basic purpose of accounting is to provide decision makers with the information useful in making economic decisions.

For you the purpose is to develop

1. understanding of accounting information
2. ability to use that information effectively

Users of accounting information

- Internal Users: Users within the business organization mainly the Management and decision makers within the organization.
- External Users: All Users of accounting Information outside of the organization.
 - Investors bankers
 - Debtors Creditors
 - Money lenders Economists
 - Government Tax Collectors



In order to use accounting information effectively you must understand

1. the nature of economic activities
2. The assumptions and measurement techniques
3. How to relate the accounting information to decision at hand.

Types of accounting

In accordance with the uses of accounting information, broadly accounting can be divided into four types.

1. Financial Accounting
2. Cost Accounting
3. Management Accounting
4. Tax Accounting

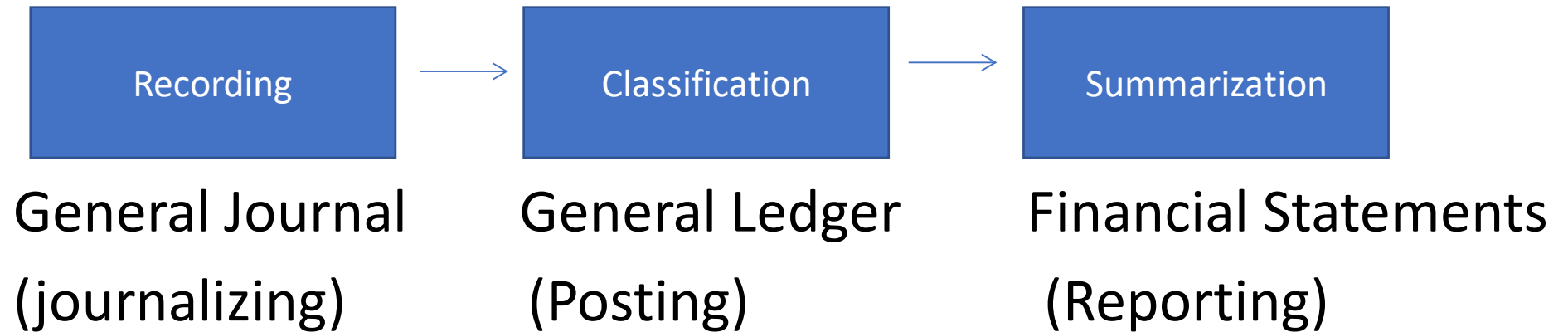
1. Financial Accounting

Financial Accounting refers to the information describing the financial resources, obligations and activities of an economic entity (either an organization or an individual).

Accountants use the term '**Financial Position**' to describe an entity's resources and obligations, at a point in time

and the term '**Results of the operations**' to describe the financial activities of a business entity over a specific duration (generally a year).

Financial accounting is concerned with recording, classifying and summarizing of financial transactions and preparing of financial statements of a particular business.



The objective of financial accounting is to provide users with reliable, relevant and comparable financial data.

2. Cost Accounting

Cost Accounting is concerned with the determination of costs of the goods and services manufactured or offered by the business.

3. Management Accounting

Management accounting: (Managerial accounting) is the development and interpretation of accounting information intended specifically to aid management in decision making. Management accounting utilizes both financial and cost accounting.

4. Tax Accounting

Tax Accounting: Mainly related to preparation of income tax returns. Basically its accounting information reorganized to conform with income tax reporting requirements.